

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 EUR-03 NSC-04 FRB-03 CEA-01

INR-05 CIAE-00 /025 W

-----076970 051847Z /41

R 051815Z JAN 78

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1759

TREASURY DEPT WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 00198

LIMDIS GREENBACK

E.O. 11652: XGDS-1

TAGS: EFIN, UK

SUBJECT: HMTREASURY ON MACROECONOMIC AND EXCHANGE RATE
QUESTIONS

SUMMARY: SENIOR HMTREASURY OFFICIAL INDICATES SOME CONCERN OVER ECONOMIC POLICY DIFFERENCES BETWEEN THE US, GERMANY AND JAPAN. IN DEALING WITH JAPAN, HMTREASURY BELIEVES THE EC AND /US SHOULD HAVE A MORE COORDINATED APPROACH. IMPACT OF NATIONAL STATEMENTS ON EXCHANGE MARKET DEVELOPMENTS MIGHT BE IMPROVED THROUGH COORDINATED CENTRAL BANK COOPERATION AND INTERVENTION PRIOR TO AND IN SUPPORT OF STATEMENTS BY SENIOR OFFICIALS. END SUMMARY

1. TREASURY REP HAD LUNCHEON CONVERSATION WITH KEN COUZENS, SECOND PERMANENT SECRETARY, OVERSEAS FINANCIAL SECTOR, HMTREASURY. COUZENS' MAIN PREOCCUPATION WAS THE IMPRESSION THE REST OF THE WORLD IS BEING GIVEN BY DIFFERENCES IN POLICY APPROACH BETWEEN THE US, JAPAN AND GERMANY. HIS MAIN POINT WAS THAT THE US IS CORRECT IN PUSHING GERMANY AND JAPAN TO REFLATE. THIS MUST BE DONE, HOWEVER, IN A WAY THAT DOES NOT OFFEND THEIR SENSIBILITIES. THIS SAID, COUZENS REPEATED HIS EARLIER VIEWS THAT
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US AND EC PRESSURE ON THE JAPANESE SHOULD BE BETTER COORDINATED. COUZENS SAID HE MIGHT BE TRAVELLING TO GERMANY DURING THIS MONTH TO AGAIN SEE IF GERMANS COULD NOT BE PUSHED INTO DOING SOMETHING MORE.

2. COUZENS BELIEVES THE GERMANS AND JAPANESE MIGHT BE MORE AMENABLE TO EXPANSION AND TO PUTTING THEIR ECONOMIES

"BACK IN PHASE" IF THE US WOULD INDICATE TO THEM THAT IN RETURN FOR THEIR EXPANSION, THE US WOULD BE WILLING TO PLAY A MORE ACTIVE ROLE IN FOREIGN EXCHANGE MARKETS, EITHER THROUGH INTERVENTION OR MONETARY POLICY. HE ACKNOWLEDGED (INDEED STRESSED) NEED FOR U.S. DOMESTIC GROWTH, BUT DID NOT THINK RISE IN INTEREST RATES AT SHORT END OF MARKET WOULD CHOKE OFF INVESTMENT. IN THIS CASE, INTERVENTION WOULD BE GOING IN THE RIGHT DIRECTION, IN LINE WITH ECONOMIC FUNDAMENTALS. IF CURRENT DEVELOPMENTS CONTINUE, HOWEVER, WITH THE GERMANS HOLDING DOWN / DOMESTIC GROWTH AND THE EXCHANGE RATE APPRECIATING, THEIR EXPORTS WILL BE HURT, WHICH WILL FURTHER NEGATIVELY IMPACT ON DOMESTIC GROWTH.

3. COUZENS SAID UK (AND AS HE PERCEIVES IT, FRENCH) POLICY IS TO KEEP OUT OF THE CROSS-FIRE BEING EXCHANGED BY GERMANY AND THE US. COUZENS FEARED THAT IF US AND GERMAN DIFFERENCES OF OPINION CONTINUE, THE GERMANS COULD PROBABLY PUSH OR LEAD THE REST OF THE EC INTO GREATER SUPPORT OF GERMAN POSITIONS. DUTCH POSITIONS ARE ALREADY VERY CLOSE TO THE GERMANS. COUZENS SAID HE FELT MAJOR INDUSTRIAL NATIONS' STATEMENTS -- AND HE SPECIFICALLY REFERRED TO PRESIDENT CARTER'S BALANCE OF PAYMENTS STATEMENT IN DECEMBER -- COULD HAVE A GREATER IMPACT IF THERE WERE PRIOR NOTIFICATION, WITH CENTRAL BANKS MAKING CON-
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INR-01 CIAE-00 /021 W
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R 051815Z JAN 78
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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 00198

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CERTED EFFORTS TO SHOW SUPPORT IN THE MARKETS FOR THE STATEMENTS. CENTRAL BANK INTERVENTION UNTIL NOW HAD NOT BEEN AS EFFECTIVE AS SHOULD BE POSSIBLE. FYI: THE ABOVE DISCUSSION TOOK PLACE BEFORE THE USTREASURY-FED ANNOUNCEMENT ON JANUARY 4 OF GREATER INTERVENTION. COUZENS EXPRESSED APPRECIATION (PER BERGSTEN-AMMERMAN TELCON) OF BEING INFORMED AND WELCOMED THE MOVE SAYING IT WAS APPROPRIATE TO THE SITUATION. END FYI

4. TOUCHING ON OTHER ITEMS, COUZENS BELIEVES FEBRUARY WP-3 MEETING AND APRIL IMF INTERIM COMMITTEE MEETING WILL BE FAIRLY IMPORTANT IN SETTING THE TONE FOR THE REST OF THE YEAR.

5. DURING DISCUSSION, TREASURY REP REMINDED COUZENS OF IMPORTANCE US ATTACHES TO REACHING AGREEMENT ON THE REVISED U.S. PROPOSAL FOR INTERNATIONAL ARRANGEMENT ON OFFICIALLY SUPPORTED EXPORT CREDITS, AND TO OUR HOPES FOR UK SUPPORT. COUZENS ACKNOWLEDGED THE POINT BUT DID NOT VOLUNTEER ANY COMMENTS.

6. ON A PERSONAL BASIS, TREASURY REP ALSO CHIDED COUZENS ON THE UK'S NIGGARDLY EXCHANGE CONTROL LIBERALIZATION AN-

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NOUNCED IN DECEMBER. HIS REPLY WAS THAT UK COMPANIES DESIRING TO INVEST OVERSEAS HAVE MANY ALTERNATIVE MEANS OF OBTAINING THE FUNDS. GIVEN THE UK'S HISTORIC HIGH IMPORT PROPENSITIES, HE ALSO CAUTIONED THAT IT COULD BE A MISTAKE TO ASSUME TOO HIGH A LEVEL OF CONTINUING UK CURRENT ACCOUNT SURPLUSES EVEN TAKING INTO ACCOUNT NORTH SEA OIL.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: OFFICIAL EXCHANGE RATES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 05 jan 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON00198
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Expiration:
Film Number: D780008-0997
Format: TEL
From: LONDON
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780197/aaaaddvx.tel
Line Count: 159
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 26d38be6-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 06 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3825321
Secure: OPEN
Status: NATIVE
Subject: HMTREASURY ON MACROECONOMIC AND EXCHANGE RATE QUESTIONS SUMMARY: SENIOR HMTREASURY OFFICIAL INDICATES SOM
TAGS: EFIN, UK
To: STATE TRSY
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/26d38be6-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014